

2001 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, February 2002

JORDAN

Key Economic Indicators 1/

(Millions of U.S. Dollars unless otherwise indicated)

| | 1999 | 2000 | 2001 |
|---|--------|--------|---------|
| <i>Income, Production and Employment:</i> | | | |
| Nominal GDP 2/ | 8,070 | 8,337 | 8,729 |
| Real GDP Growth (pct) 3/ | 3.1 | 3.9 | 3.5-4.0 |
| GDP by Sector: | | | |
| Agriculture | 164 | 162 | N/A |
| Manufacturing | 1,058 | 1,122 | N/A |
| Services | 1,615 | 1,712 | N/A |
| Government | 1,374 | 1,481 | N/A |
| Per Capita Nominal GDP (US\$) 4/ | 1,646 | 1,654 | 1,685 |
| Labor Force (000s) 5/ | 1,260 | 1,305 | 1,350 |
| Unemployment Rate (pct) 5/ | 14.2 | 13.7 | 13.2 |
| <i>Money and Prices (annual percentage growth):</i> | | | |
| Money Supply Growth (M2) | 12.0 | 10.2 | 8.4 |
| Consumer Price Inflation 6/ | 0.6 | 0.7 | 1.4 |
| Exchange Rate | | | |
| Official (JD/US\$ annual average) | 0.709 | 0.709 | 0.709 |
| <i>Balance of Payments and Trade:</i> | | | |
| Total Exports FOB 7/ | 1,832 | 1,899 | 2,072 |
| Exports to United States 8/ | 13.1 | 63.2 | 200 |
| Total Imports CIF 7/ | 3,699 | 4,577 | 4,714 |
| Imports from United States 8/ | 365 | 454 | 372 |
| Trade Balance 7/ | -1,867 | -2,678 | -2,642 |
| Balance with United States 8/ | -352 | -391 | -172 |
| Current Account Deficit/GDP (pct) 9/ | -5.0 | -0.7 | 2.7 |
| External Debt Outstanding 10/ | 7,313 | 6,760 | 6,664 |
| Fiscal Deficit/GDP (excluding grants) (pct) | -7.4 | -7.5 | -6.3 |
| Fiscal Deficit/GDP (including grants) (pct) | -3.9 | -3.4 | -2.5 |
| Debt Service Payments/GDP (pct) 11/ | 9.6 | 8.8 | 9.3 |
| (Commitment Basis) | | | |
| Debt Service Payments/GDP (pct) 11/ | 6.2 | 6.4 | N/A |
| (Cash Basis) | | | |

| | | | |
|--|-------|-------|-------|
| Gold and Foreign Currency Reserves 12/ | 2,748 | 3,429 | 3,230 |
| Official Foreign Currency Reserves 12/ | 1,991 | 2,763 | 2,662 |
| Aid from United States 13/ | 313 | 479 | 256 |
| Aid from All Other Sources 14/ | 230 | 288 | 291 |

1/ Sources: Central Bank of Jordan's (CBJ) Monthly Bulletin, September 2001; Ministry of Finance's (MOF) Government Finance Bulletin, August 2001; and Ministry of Labor's Annual Reports. Statistics for 1999 and 2000 have been revised and differ from last year's report due to improvements in the methodology. FY 2000 figures are preliminary as per their sources. FY 2001 estimates are based on CBJ and MOF projections, and embassy estimates.

2/ FY 2001, based on Nominal GDP growth projection of 4.7 percent.

3/ Percentage changes calculated in local currency for real GDP at factor cost. Note that data for 1999-2000 has been revised.

4/ FY 2001 estimates of 5.18 million inhabitants and nominal GDP growth rate of 4.7 percent.

5/ Labor Force: Ministry of Labor reports and official government estimates; Unemployment for FY 2001: results of the second round of the Employment and Unemployment Survey (May 2001) conducted by the Department of Statistics.

6/ Percentage change in the Cost of Living Index.

7/ Merchandise trade - exports and imports on customs, basis.

8/ FY 2001 figures are based on embassy estimates.

9/ Including grants. Figures for 1999 and 2000 are in surplus.

10/ FY 2001, as at end of July 2001.

11/ FY 2001 debt service estimates based on embassy projections.

12/ End of Period. FY 2001 figures as at end of July.

13/ USAID statistics excluding credit guarantees and GSM grain soft loans. Includes economic and military assistance. In 2001, the U.S. provided \$75 million in Foreign Military Financing (FMF) and \$1.6 million in International Military Education and Training Program (IMET), and \$2.6 million in other military funds. FY 1999, 2000 and 2001 include Section 416(b) donation of U.S. agricultural commodities.

14/ Foreign grants as reported in the General Government Budget (CBJ, MOF reports), including the Iraqi grant. FY 2001 are MOF estimates.

1. General Policy Framework

With a per-capita gross domestic product (GDP) of about \$1,685, and a population of 5.1 million, Jordan has one of the smallest and poorest economies in the region. Since 1996, Jordan has experienced stagnant or declining per capita income, and high levels of unemployment. However, the economy began picking up in 2000 with real GDP growing by 3.9 percent, somewhat higher than the rate of population growth. Growth for 2001 is expected to be between 3.5 percent and 4 percent, despite regional instability caused by the Palestinian Intifada and terror attacks in the United States in September 2001.

Under the leadership of King Abdullah, Jordan has demonstrated its commitment to economic reform, especially in the areas of privatization and in improving the investment

climate. In September 2001, President Bush signed legislation implementing a free trade agreement (FTA) between Jordan and the United States that was originally signed October 24, 2000. The FTA should enter into force by January 2002. Jordan has also signed an Association Agreement with the EU that has not yet entered into force. The government has partially privatized the national telecommunications' company and the state-owned cement firm, and is in the process of privatizing elements of the national airline.

Reforms of customs, taxation, and investment laws have improved Jordan's business climate. The United States offers unique trade benefits to Jordan through the designation of Qualifying Industrial Zones (QIZs). Investors have shown interest in the QIZs, which are industrial parks that can export products to the U.S. duty-free provided 11.7 percent of the product's content comes from Jordan, 8 percent from Israel, and 15.3 percent from either of those two countries or the West Bank/Gaza. QIZ factories have created more than 20,000 jobs and US\$ 170 million in new investments since 1999, and have boosted Jordanian exports to the United States from US\$ 13 million in 1999 to an estimated US\$ 200 million in 2001. Ten QIZs have been designated by the U.S. government. Jordan is also developing the port of Aqaba as a Special Economic Zone (SEZ), with low taxes, minimal bureaucracy, and investor-friendly policies.

2. Exchange Rate Policy

The Central Bank of Jordan (CBJ) oversees foreign currency transactions and sets the exchange rate. The dinar-dollar fixed rate was instituted in 1995 and remains at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately \$1.41 to the dinar). The dinar fluctuates against other currencies according to market forces.

The Jordanian dinar (JD) is fully convertible for all commercial and capital related transactions. Foreign currency is obtainable from licensed banks at the legal market-clearing rate, which is the CBJ's official rate. Although there has been some deterioration of the real effective exchange rate since the early 1990s, the Jordanian government is committed to the peg to the dollar at an exchange rate of approximately \$1.41 to the JD.

Moneychangers operate under CBJ supervision and are free to set their own currency exchange rates. Moneychangers, unlike banks, do not pay CBJ commission fees for exchange transactions. This gives them a competitive edge over banks, as they are able to charge lower fees to customers.

Banks do not require CBJ approval for the transfer of funds from either resident or non-resident accounts (including investment-related transfers). Banks, however, ultimately report all foreign currency transactions to the CBJ. Both residents and non-residents may open accounts in either JD or foreign currencies. There are no restrictions on the amount resident account holders may maintain in foreign currency deposits, and there are no limits on the amount of funds residents are permitted to transfer abroad.

The CBJ requires banks to prove nonresident status for foreign clients' accounts every three years. Foreign clients who cannot prove nonresident status will have their accounts converted to resident foreign currency accounts. Nonresident foreign currency accounts are exempted from all transfer-related commission fees charged by the central bank.

Banks may buy or sell an unlimited amount of foreign currency on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward basis for the purpose of covering the value of imports.

The banking system remains open to foreign investment. World bank experts are helping the CBJ draft an e-commerce law which will include e-banking. A number of banks have already started providing tele-banking and e-banking services.

3. Structural Policies

Most imports into Jordan are subject to tariffs and duties, while industrial raw materials and capital equipment imported by licensed industrial projects may be exempted. The ceiling on all duties was reduced to 30 percent in March 2000 following Jordan's accession to the WTO. Most additional customs taxes, fees and duties on regular imports have been abolished. However, automobiles and certain luxury goods are still charged additional sales' taxes, which also were reduced in 2000. In September 2001, Jordan and the United States concluded a bilateral Free Trade Agreement, which will progressively eliminate virtually all restrictions to goods and services trade between the two countries over 10 years.

A new Income Tax Law will come into force on January 1, 2002. The new Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than \$3,000) and 25 percent (for annual incomes exceeding \$20,000). Corporate taxes are set at 35 percent for banks and financial institutions and 25 percent for all other corporate entities (including insurance companies, brokerage firms and moneychangers). Re-invested profits are exempt from income tax.

In early 2001, the government introduced a Value Added Tax (VAT)-like sales tax to replace the existing sales tax. The VAT, still called a general sales tax, rate was set at 13 percent across-the-board. However, it is higher on certain items, such as cigarettes, alcohol, and automobiles. The General Sales Tax law exempts exports from the sales tax and restricts the Cabinet's ability to impose additional sales taxes except if they were in accordance with WTO regulations. Almost all types of professional, business, and legal services are also subject to the 13 percent sales tax.

4. Debt Management Policies

Jordan's outstanding external official debt is approximately \$6.7 billion or 77 percent of GDP (down from 97 percent at the end of 1999). Pursuant to economic programs agreed with

the IMF, Jordan rescheduled \$400 million in debt to Paris Club creditors in 1997, and a further \$800 million in 1999, easing repayment pressure in the short term. The ratio of debt service to exports of goods and non-factor services, on a commitment basis, has been decreasing since 1993, dropping from 35.9 percent in 1993 to 20.6 percent at the end of 2000, according to the Ministry of Finance. More than 25 percent of Jordan's external debt is to multilateral institutions, while its largest bilateral creditors are Japan, France, and the United Kingdom.

5. Significant Barriers to U.S. Exports

Import Licenses: The license regime has been modified in accordance with WTO requirements. Import licenses are generally not required.

Services Barriers: With Jordan's accession to the WTO in 2000, market-entry barriers will be eased or lifted completely either immediately or over a period of time. Despite a few exceptions (in health, engineering, and transportation) foreign suppliers of services will receive Normal Trade Relations or national treatment.

Standards, Testing, Labeling, and Certification: Except for pharmaceuticals, which are handled by the Ministry of Health, the Institute of Standards and Metrology is responsible for most issues related to standards, measures, technical specifications, and ISO certification. Imported products must comply with labeling and marking requirements issued by the Standards and Measures Department and relevant government ministries. Different regulations apply to imported foodstuffs, medicines, chemicals and other consumer products. Jordan has reviewed all its mandatory standards' requirements and others and made them compatible with WTO requirements since early 2001. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

Jordan's Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. The law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in the following sectors: construction and contracting, and trade and commercial services. These restrictions will not be affected by the FTA. The United States and Jordan signed a Treaty for the Reciprocal Protection of Investment, Bilateral Investment Treaty (BIT) in 1997.

Government Procurement Practices: With few exceptions, the General Supplies Department of the Ministry of Finance makes government purchases. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank or international donors. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through local agents. While Jordan's procurement law does not allow non-competitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender-issuing department, as well as review committees at the Central Tenders and General Supplies Departments, the right to accept

or reject any bid while withholding information on its decisions. Jordan is negotiating accession to the WTO Government Purchases Agreement.

Customs Procedures: Cumbersome customs procedures, overlapping areas of authority and difficult and delayed clearance procedures are common and hinder the smooth conduct of business despite donor-supported reform efforts. Tariff assessment remains discretionary and the Customs Law awards customs officials who uncover invoice misreporting and impose penalties on importers.

6. Export Subsidies Policies

The Central Bank runs a low interest financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. However, with Jordan's accession to the WTO, it has committed to phase out this facility over a period of time. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts, and agriculture. The Export and Finance Bank, a public shareholding corporation, provides commercial financing and loan guarantees to Jordanian exporters.

7. Protection of U.S. Intellectual Property

Prior to its accession to the World Trade Organization, Jordan passed several new laws to improve protection of intellectual property rights. Patents, copyrights, trademarks, trade secrets, plant varieties and semiconductor chip designs are now protected by TRIPS-consistent laws. The law requires registration of copyrights, patents, and trademarks. Copyrights must be registered at the National Library, part of the Ministry of Culture. Patents must be registered with the Registrar of Patents and Trademarks at the Ministry of Industry and Trade. Jordan is also a member of the World Intellectual Property Organization, and is a signatory to the Paris Convention for the Protection of Industrial Property and the Berne Convention.

Jordan's pharmaceutical industry, which in the past profited greatly from the unlicensed copying of pharmaceuticals, now abides by the new TRIPS-consistent patent law that outlaws pirating. In addition, in signing the FTA Jordan committed to even stronger enforcement of IPR, particularly in the pharmaceutical sector. Jordanian firms are now seeking joint ventures and licensing agreements with multinational partners to assure their profitability under the new patent regime.

Despite the progress Jordan has made in improving its IPR legislation, however, effective enforcement mechanisms and legal procedures have not yet been fully established. As a result, the government's record on IPR protection remains mixed. In the pharmaceutical sector, the government and private sector meet or exceed international norms of IPR protection. Meanwhile, the majority of videos and software sold in the marketplace continues to be pirated. Enforcement action against audio/video and software piracy is improving, but remains spotty.

8. Worker Rights

a. The Right of Association: Workers in the private sector and some state-owned companies have the right to establish and join unions. More than 30 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. The Right to Organize and Bargain Collectively: Unions have and exercise the right to bargain collectively. GFJTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions, and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the Ministry fails to act within two weeks, the union may strike.

c. Prohibition of Forced or Compulsory Labor: Compulsory labor is forbidden by the Jordanian Constitution, except in a state of emergency such as war or natural disaster.

d. Minimum Age for Employment of Children: Children under age 16 are not permitted to engage in formal employment. This provision, however, does not protect those children who work in the agricultural and domestic fields or small family businesses. Although the practice of child labor is widespread, Ministry of Labor inspectors have never fined an employer for a child labor violation as prescribed by the labor law.

e. Acceptable Conditions of Work: Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. In September 2001, Jordan and the United States concluded a bilateral Free Trade Agreement. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant, and movie theater employees, who may work up to 54 hours. Jordan has a Workers' Compensation Law and a social security system, which cover companies with more than five employees.

f. Rights in Sectors with U.S. Investment: Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

| Category | Amount |
|----------|--------|
|----------|--------|

| | | |
|------------------------------------|-----|-----|
| Petroleum | | -1 |
| Total Manufacturing | | -20 |
| Food & Kindred Products | -20 | |
| Chemicals & Allied Products | 0 | |
| Primary & Fabricated Metals | 0 | |
| Industrial Machinery and Equipment | 0 | |
| Electric & Electronic Equipment | 0 | |
| Transportation Equipment | 0 | |
| Other Manufacturing | 0 | |
| Wholesale Trade | | 0 |
| Banking | | (D) |
| Finance/Insurance/Real Estate | | (D) |
| Services | | 0 |
| Other Industries | | 0 |
| TOTAL ALL INDUSTRIES | | 25 |

(D) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.